Annual Report

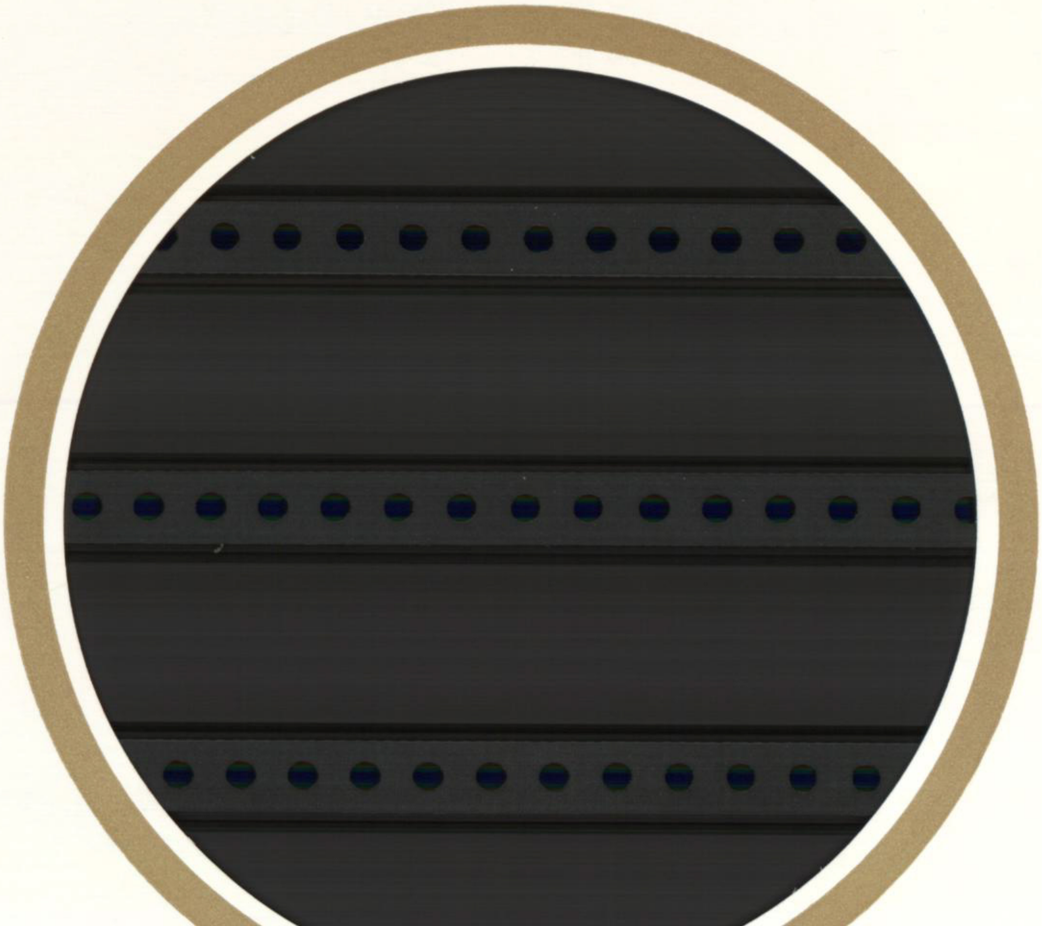
1965

FOR FISCAL YEAR

ENDED

FEBRUARY 26, 1966

The Great Atlantic & Pacific Tea Company, Inc.



NOTICE OF ANNUAL MEETING:

The Annual Meeting of Stockholders will be held on Tuesday, June 21, 1966 at 10:30 a.m. (E.D.T.) in the Biltmore Hotel, New York, New York.

The Great Atlantic & Pacific Tea Company, Inc.

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COMPARATIVE HIGHLIGHTS

FOR THE FISCAL YEAR ENDED	Feb. 26, 1966 (52 weeks)	Feb. 27, 1965 (52 weeks)	Feb. 29, 1964 (53 weeks)
Sales	$5,118,977,800	$5,079,564,200	$5,189,188,400
Income before income taxes	96,539,300	98,632,900	108,989,400
United States and foreign income taxes	44,200,000	46,500,000	51,500,000
Net income	52,339,300	52,132,900	57,489,400
Per share*	2.11	2.10	2.32
Per cent of sales	1.02%	1.03%	1.11%
Cash dividends paid	36,835,300	36,420,500	35,995,200
Per share	1.50	1.50	1.50
Stock dividend at market value	9,030,200	10,043,900	9,627,900
Additions to property, equipment and fixtures	58,987,800	60,255,800	49,121,500
Depreciation and amortization	43,355,900	41,995,800	42,706,800
AT YEAR-END			
Working capital	$ 296,302,700	$ 290,998,000	$ 289,187,400
Ratio of current assets to current liabilities	2.31	2.33	2.34
Property, equipment and fixtures less accumulated depreciation and amortization	294,639,600	280,092,300	262,706,300
Stockholders' equity	592,615,200	576,321,100	559,144,500
Per share*	23.88	23.23	22.54
Number of stores	4,625	4,585	4,519
Approximate number of stockholders	46,430	41,400	39,404

***Based on 24,812,018 shares outstanding at February 26, 1966.**

To Our Stockholders

1965 was a "turn-around" year at A&P as both sales and profits improved, reversing the trend of the two previous fiscal periods.

Sales totaled $5,118,977,802, up from $5,079,564,213 a year earlier. Profits, after taxes, were $52,339,276 as compared with $52,132,879 in 1964.

We are encouraged by the fact that the rate of sales increase in the fourth quarter was appreciably better than that of the first three quarters.

This past year was characterized by continued modernization and expansion of our retail stores and by improvement of our manufacturing and distribution facilities.

The new company-owned Ann Page factory building at Horseheads, N. Y., covering one and one-half million square feet, was completed. Much of the manufacturing and processing equipment was installed during the year and partial production was started. Certain non-recurring expenses connected with the transfer of equipment and starting up of this new plant had a depressing effect on earnings during 1965. Even though full production is not scheduled until late '66, we expect this new facility to contribute to profits in the current year.

During the fiscal year ended February 26, 1966, A&P achieved several long-range objectives designed to reduce

cost and provide greater service. Some of these resulted in immediate dollar savings and all are expected to enhance future earnings.

It was just a year ago that A&P established "Target 1965." The objectives were the further development of an in-store personality and an appearance that would be more pleasing, more attractive and more magnetic to the consumer. The "Target" included courteous service, adequately stocked shelves and a variety of merchandise, all in a clean, friendly atmosphere. We are pleased to report progress throughout the Company in this respect through the loyalty and ability of the people of A&P. We are most grateful to them for their contribution to the year's results.

Our stores and plants are in the best physical condition in the history of the Company. Our organization is vigorous and during the year our management was strengthened as many of our people moved on to more important responsibilities. They are giving a good account of themselves.

For the past year as a whole, we feel that much was accomplished in constructive development that speaks well for the future.

As we enter 1966 we look forward to another year of progress.

For the Board of Directors,

Chairman of the Board

President

May 19, 1966

Statement of Consolidated Income and Retained Earnings

For the Periods Ended February 26, 1966 and February 27, 1965

	52 Weeks to Feb. 26, 1966	52 Weeks to Feb. 27, 1965
Sales	$5,118,977,802	$5,079,564,213
Cost of merchandise sold	4,168,931,431	4,141,370,714
Gross profit	950,046,371	938,193,499
Store operating, general and administrative expenses	855,564,191	842,078,599
Profit from operations	94,482,180	96,114,900
Other income — net	2,057,096	2,517,979
Income before income taxes	96,539,276	98,632,879
United States and foreign income taxes and other charge:		
Income taxes:		
Current	38,604,000	44,326,000
Deferred	3,348,000	518,000
Charge equivalent to investment tax credit — net	2,248,000	1,656,000
Total	44,200,000	46,500,000
Net income	52,339,276	52,132,879
Retained earnings at beginning of period	184,540,227	178,871,712
	236,879,503	231,004,591
Deduct:		
Cash dividends — $1.50 a share	36,835,251	36,420,480
Stock dividends — 1%:		
Par value of shares issued	245,652	242,958
Excess of market value over par value of shares issued — transferred to capital surplus	8,784,516	9,800,926
	45,865,419	46,464,364
Retained earnings at end of period	$ 191,014,084	$ 184,540,227

See the accompanying Notes to Financial Statements.

Consolidated Balance Sheet

February 26, 1966 and February 27, 1965

Assets

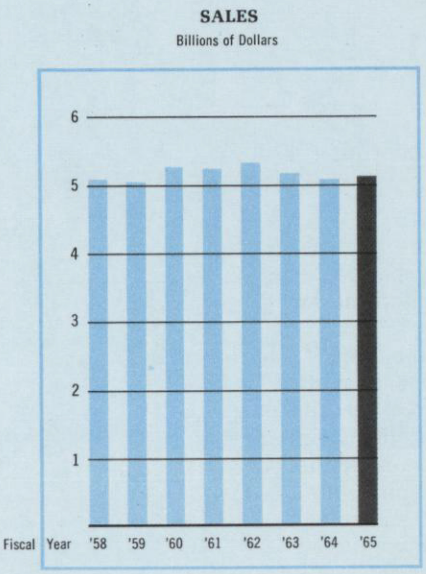
	February 26, 1966	February 27, 1965
CURRENT ASSETS:		
Cash	$114,578,428	$114,504,258
Temporary investments in government obligations — at cost	21,695,427	27,604,805
Accounts receivable	15,355,241	13,245,696
Merchandise and supplies (at the lower of cost or market)	370,111,323	354,188,287
Current assets	521,740,419	509,543,046
PROPERTY, EQUIPMENT AND FIXTURES:		
Land, at cost	4,725,981	4,124,986
Buildings, at cost less accumulated depreciation — 1966, $7,445,098; 1965, $6,698,292	30,550,968	25,852,007
Equipment, at cost less accumulated depreciation — 1966, $158,255,850; 1965, $145,472,117	184,840,022	174,941,284
Store fixtures, at amortized cost	74,522,645	75,174,072
Property, equipment and fixtures — net	294,639,616	280,092,349
DEFERRED CHARGES	19,415,447	17,616,813
	$835,795,482	$807,252,208

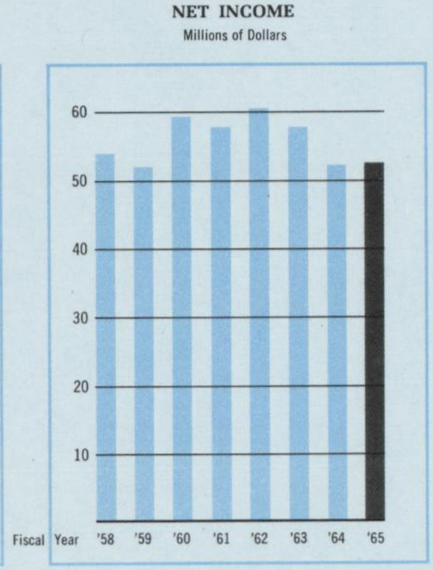
See the accompanying

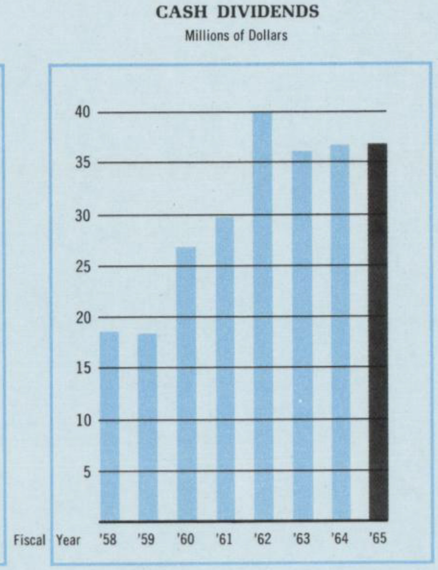
Liabilities

	February 26, 1966	February 27, 1965
CURRENT LIABILITIES:		
Accounts payable	$164,688,746	$153,725,363
Accrued accounts:		
United States and foreign income taxes	20,359,064	26,388,371
Other taxes, salaries, etc.	40,389,926	38,431,279
Current liabilities	225,437,736	218,545,013
DEFERRED INVESTMENT CREDIT, RESERVES FOR SELF-INSURANCE, ETC.	13,876,552	12,386,112
DEFERRED INCOME TAXES	3,866,000	
STOCKHOLDERS' EQUITY:		
Common stock — $1 par value; authorized 28,000,000 shares; issued 1966, 24,812,018 shares; 1965, 24,540,839 shares	24,812,018	24,540,839
Capital surplus	376,789,092	367,240,017
Retained earnings	191,014,084	184,540,227
Stockholders' equity	592,615,194	576,321,083
	$835,795,482	$807,252,208

Notes to Financial Statements.







1958 and 1963 were 53-week fiscal years

STATEMENT OF SOURCE AND USE OF FUNDS

For the Periods Ended February 26, 1966 and February 27, 1965

(In Thousands of Dollars)

	52 Weeks to Feb. 26, 1966	52 Weeks to Feb. 27, 1965
FUNDS PROVIDED FROM:		
Operations:		
Net income	$ 52,339	$ 52,133
Charges to income not requiring funds:		
Depreciation and amortization	43,356	41,996
Charge equivalent to investment tax credit—net	2,248	1,656
Deferred income taxes	3,348	
Funds provided from operations	101,291	95,785
Sale of stock under stock option plan	790	1,464
Total funds provided	102,081	97,249
FUNDS USED FOR:		
Cash dividends	36,835	36,420
Additions to property, equipment and fixtures	58,988	60,256
Net book value of property sold or retired	(1,085)	(874)
Miscellaneous	2,038	(364)
Total funds used	96,776	95,438
INCREASE IN WORKING CAPITAL	5,305	1,811
WORKING CAPITAL AT BEGINNING OF PERIOD	290,998	289,187
WORKING CAPITAL AT END OF PERIOD	$296,303	$290,998

Notes to Financial Statements

FEDERAL INCOME TAXES: For Federal income tax purposes only, an accelerated method is used to depreciate major groups of equipment and the guideline life permitted by the U. S. Treasury Department is used. The resulting reductions in current Federal income taxes have no effect on net income, however, since amounts equivalent to such reductions are provided for deferred Federal income taxes.

The investment credit applicable to property acquired is being amortized over the estimated useful lives of the assets.

RETIREMENT PLAN: Under the terms of the Employees' Retirement Plans, non-contributory retirement benefits are provided for eligible employees. Contributions by the companies were $23,542,000 and $25,775,000 for the periods ended February 26, 1966 and February 27, 1965, respectively. It is estimated by the Company's independent consulting actuary that the total assets of the retirement plans as of December 31, 1965 were sufficient to cover the single sum actuarial liabilities for benefits accrued to that date.

LONG-TERM LEASES AND OTHER MATTERS: Most operations of the companies are conducted in leased premises. There were approximately 4,900 leases in force on February 26, 1966 (exclusive of leases relating to premises where operations had not commenced, which are of the same type) that were, in general, for periods not exceeding ten years. The current annual rental of these premises is approximately $89,300,000.

Since February 26, 1966 the companies' modernization program has involved the customary substantial expenditures, made or to be made, for new store leases, equipment and inventories.

STOCK OPTIONS: The stock option plan approved by the stockholders on June 21, 1960 provided that executives and key employees may be granted options to purchase stock of the Company at the fair market value of the stock on the date of grant.

Proceeds from the 25,527 shares sold during the year amounted to $790,086, of which $25,527 was credited to capital stock and $764,559 to capital surplus.

344,089 shares of the Company's unissued stock are reserved for issuance under the plan, of which 143,839 shares are available for immediate purchase, 117,566 shares are available for purchase at various dates after February 26, 1966, and 82,684 shares have not been allotted and are available for future grants.

At February 26, 1966, after adjustment for stock dividends and cancellations, the status of the plan was as follows:

	Options Granted			
	Oct. 17, 1960	Jan. 24, 1963	July 8, 1965	July 15, 1965
Shares sold to February 26, 1966	199,069	None	400	None
Available for purchase under outstanding options	97,771	21,527	111,605	30,502
Shares allotted	296,840	21,527	112,005	30,502
Present option price per share	$30.57	$42.46	$36.51	$36.27

HASKINS & SELLS
CERTIFIED PUBLIC ACCOUNTANTS

TWO BROADWAY
NEW YORK 10004

ACCOUNTANTS' OPINION

To the Board of Directors and Stockholders of
The Great Atlantic & Pacific Tea Company, Inc.:

We have examined the consolidated balance sheet of The Great Atlantic & Pacific Tea Company, Inc. and its subsidiary companies as of February 26, 1966, and the related statements of consolidated income and retained earnings and of source and use of funds for the 52 weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statement of consolidated income and retained earnings present fairly the financial position of the companies as of February 26, 1966 and the results of their operations for the 52 weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding period; and the accompanying statement of source and use of funds presents fairly the information shown therein.

May 2, 1966.

Haskins & Sells

The Year In Review

Much credit for A&P's "turn-around" performance for fiscal 1965 can be attributed to greater efficiency in many areas of supply and distribution plus a more economical management of manpower and physical facilities.

New stores, new plants, new products, new assignments of responsibility and a new advertising concept all contributed measurably to this success.

Notable among the steps taken by management to sustain the accelerated pace was the enactment, for the first time in 28 years, of a major change in the administration of store operations. This consisted of an extension of the Eastern and Atlantic Divisions into four warehousing units of the old New England Division which had been headquartered in Boston.

These strategic moves came late in the fiscal year 1965 and are expected to contribute to improved future operations.

As a result of several personnel changes in 1965, the stage was set for full attainment in 1966 of the Company's long-range program to bring younger men into positions of executive responsibility. Back in 1961 the Board had asked a number of officers to remain with A&P beyond the normal retirement age in the interest of continuity of management. At the beginning of the last fiscal year only four of these executives were still active. Three of these four, all of them corporate vice presidents, retired during the past year. They were Mr. R. M. Smith, president of Southern Division, Mr. L. M. Cazayoux, president of New England Division, and Mr. William F. Leach, president of Atlantic Division. The last of this group, Mr. John D. Ehrgott, chairman, will retire on July 1.

More efficient utilization of existing, expanded and new manufacturing and distribution facilities reduced operating costs in some supply areas during 1965 and promises even greater benefits in the current year.

Capital Expenditures

In its continuing long-range program to provide more efficient operations and better service to A&P customers, the Company began construction on a number of new plants and stores during the year.

As part of this program, the number of retail stores was increased to 4,625. This included a total of 205 new stores opened during the year for a net gain of 40 over the preceeding year. There were 165 stores closed for various reasons, including obsolescence. In addition, 507 stores underwent major remodeling to provide improved shopping facilities for customers. Where possible and consistent with the architectural environment of the area, a number of these were redesigned in the Early American motif, popularized by many of the Company's new supermarkets. Another type of store front, the contemporary style, also is used in some communities.

In addition to the start-up last June of limited production at the new $30-million Ann Page Division plant at Horseheads, N. Y., the Company passed

another milestone with the start last June of construction on a $2.7-million fresh milk plant at Fort Washington, Pa., just outside of Philadelphia. This new facility, the first of its kind to be owned and operated by the Company, will process and bottle milk for delivery to A&P stores in eastern Pennsylvania, southern New Jersey and Delaware. It is expected to be in operation by late this year.

Other major projects started during the past year included a food distribution center in Detroit, a bakery in Charlotte, N. C., and a grocery distribution center in Chicago. All are expected to be completed and in operation this year.

Jane Parker

The growing popularity of A&P's frozen baked foods since their introduction two years ago is indicated by the fact that nine additional products were perfected and made available in most A&P Food Stores during the past year bringing the total to 22 varieties.

Produced in centrally located Jane Parker bakeries, these frozen baked foods embody the same fine quality as the regular baked line but offer the added convenience to the housewife of extended oven freshness for immediate home use or freezer storage.

In addition to its expanded line of frozen baked foods, the National Bakery Division introduced 37 new items in the fresh line during the past year to offer A&P customers the broadest variety of Jane Parker products in the Company's history.

The new Flushing, N. Y. Jane Parker bakery, one of the facilities producing fresh and frozen products, moved into full operation during 1965.

Ann Page

The past year saw the start-up of a new 1,500,000-square-foot Ann Page processing plant at Horseheads, N. Y. and the beginning of direct shipments from this new facility to A&P Food Stores in the eastern part of the nation.

Since June, when the first chocolate candies rolled off the production line to signal the start of processing operations there, other food items have been added gradually. Production of the complete range of Ann Page products is expected to be attained in the fall.

Left: In recent years, many of our newer stores have been styled in the early American tradition where this type of design is compatible with the area.

Approximately 1,800 men and women are presently employed in this magnificent new building which contains 35 acres of manufacturing and warehousing floor space. The staff is expected to be increased by year's end to the 2,300 level.

The Horseheads facility also includes a development laboratory and pilot plant which will be utilized for the study and development of new products to supplement the present range of food and non-food items sold under the Company's own labels.

The Ann Page Division plans to convert its Brockport, N. Y. plant to the manufacture of certain non-food products. Brockport already is producing "Bonesse" hair shampoo as well as bottling the Company's liquid "Sail" detergent.

Who Cares?

An unquestioned contributor to the 1965 "turn-around" was the Company's new institutional advertising program, a communications effort designed to alert customers, potential customers and employees alike to the extra values to be obtained in A&P super markets.

The central theme of this refreshingly novel advertising campaign was—and is—the sincerity of corporate interest in the goods and services offered at the stores.

There is every reason to believe that the "Who Cares?" messages will stimulate sales in 1966 and will inspire the entire organization to greater performance.

Jane Parker bakeries now produce 22 delicious frozen baked foods which are sold under the A&P label. These time-saving products, which take oven freshness into home freezers, are proving increasingly popular with busy homemakers.

Directors

MELVIN W. ALLDREDGE
ANTHONY A. BLISS
R. MANNING BROWN, JR.
JOHN T. CAHILL
FRED E. CAMPBELL
LAWRENCE M. CAZAYOUX
ROY C. COLLINS
WILLIAM CORBUS
DONALD KIRK DAVID
JOHN D. EHRGOTT
HAROLD D. HOAG
BYRON JAY
WILLIAM J. KANE
WILLIAM F. LEACH
EDWARD A. LE PAGE
O. PHILIP NYQUIST
GWILYM A. PRICE
JOHN M. SCHIFF
DAVID SHER
JOHN ELLIOT SLATER
ROBERT M. SMITH
EDWARD J. VOGEL

DIRECTOR EMERITUS:
OLIVER C. ADAMS

Officers

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BYRON JAY *President and Chief Executive Officer*
MELVIN W. ALLDREDGE *Vice Chairman*
WILLIAM CORBUS *Vice President*
HAROLD D. HOAG *Vice President and Treasurer*
WILLIAM J. KANE *Vice President*
EDWARD A. LE PAGE *Vice President*
O. PHILIP NYQUIST *Vice President*
EDWARD J. VOGEL *Vice President*
FRED E. CAMPBELL *Secretary and General Counsel*

Executive Offices
420 Lexington Avenue
New York, N. Y. 10017

Transfer Agent
Morgan Guaranty Trust Company of New York
New York, New York

Registrar
The First National City Bank of New York
New York, New York

A&P